NAVIGANT

Financial and Operational Forensic Analysis of North Little Rock School District's Budget and Expenditure Patterns

Provided to:

Office of the Attorney General for the State of Arkansas

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Appendices

I. Introduction

Navigant was engaged by the Office of Attorney General for the State of Arkansas ("AG") to provide forensic accounting and other related services in connection with desegregation funding ("Desegregation Funding" or the "Funding") provided by the Arkansas Department of Education ("ADE") to the three Pulaski County school districts (collectively referred to as the "School Districts")–Pulaski County Special School District (the "PCSSD"), North Little Rock School District (the "NLRSD") and Little Rock School District (the "LRSD").[1]

Specifically, Navigant was engaged to perform a financial and operational forensic analysis of the budget and expenditure patterns of the School Districts to determine how the Funding has been historically expended and identify areas where cost savings could be achieved. Navigant was also requested to identify any areas or incidents of weakness in internal controls and policies and procedures that may have allowed fraud, waste, mismanagement and abuse of the Funding to have occurred. Additionally, Navigant was engaged to perform an impact analysis to serve as the underlying rationale for any proposed wind down of the Desegregation Funding to ensure that the reduction in Funding would not have an adverse impact on the academic and fiscal integrity and standards of the School Districts.

This report serves as a preliminary report of the analyses and interviews Navigant has performed to date in connection with the NLRSD.[2]

II. Executive Summary

A. Overview

In accordance with the AG's request, Navigant focused its forensic analysis on the NLRSD's financial records related to the Funding for fiscal years 2006-2010 and fiscal year ("FY") 2011 to date.[3] The objective was to assess the accuracy and completeness of the NLRSD's accounting of the Funding and the extent to which expenditures incurred for desegregation purposes can be identified and vouched to supporting documentation.

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[1] In 1989, the State of Arkansas entered into the Pulaski County School Desegregation Case Settlement Agreement ("Settlement Agreement") with the School Districts in which the State was required to provide additional funding currently totaling approximately $60-70 million annually to the School Districts to implement and fund student desegregation programs. There were subsequent modifications and updates to the Settlement Agreement issued by the court including Plan 2000 and an agreement between LRSD and the ADE executed on March 19, 2001.

[2] Navigant previously performed a preliminary analysis of PCSSD's budget and expenditure patterns and interviewed PCSSD representatives. Navigant will also analyze the budget and expenditure patterns of the LRSD.

[3] The ADE's and the School Districts' FY begins on July 1. For FY 2011, Navigant reviewed transactions recorded in the Arkansas Public School Computer Network ("APSCN") through December 9, 2010.

Mr. Scott Richardson, Assistant Attorney General, was the primary point of contact assisting Navigant–providing appropriate documentation, access to representatives from the NLRSD and other information Navigant required performing its analysis.

Navigant conducted eight interviews of representatives from the NLRSD.[4] Navigant obtained Funding documentation from the ADE and obtained access to APSCN, the online accounting and reporting application used by most school districts in Arkansas.[5]

The ADE created specific codes for the School Districts to utilize and properly record the Funding in the Arkansas Public School Computer Network ("APSCN") for tracking purposes. These include a combination of Source of Fund and associated Revenue Account codes as follows:[6]

Source of Fund Code and Description	Related Revenue Account(s)
386 Pulaski County Magnet School Revenue	32800 and 32808 - 32811
387 Majority to Minority ("M-to-M") Revenue	32812
387 Teacher Retirement & Insurance Court Settlement	32814
388 Magnet & M-to-M Transportation	32813

The ADE informed Navigant that the Revenue Account codes related to the Funding begins with "328."

4 Navigant also spoke with attorney Stephen W. Jones, a founding partner of law firm Jack Nelson Jones Jiles & Gregory, P.A. ("Jones"), the firm representing NLRSD in the litigation matter that is the subject of the Settlement Agreement. He made an unannounced visit to NLRSD when Navigant was conducting its interview of NLRSD's Assistant Superintendent for Desegregation and Student Services, and he provided Navigant with his views on the Desegregation Funding in connection with the Settlement Agreement. A summary of Jones' discussion with Navigant is summarized in section III.B.4 of this report.

Ms. Debby A. Linton, an associate attorney at Jones' firm, was present during all of Navigant's interviews of NLRSD representatives.

5 Navigant was informed by the ADE that LRSD does not utilize APSCN for accounting and reporting. For further details on the procedures performed by Navigant to date, see section V of this report.

6 As referenced in the "Arkansas Financial Accounting Handbook for Arkansas Public Schools, Arkansas Educational Services Cooperatives, Open Enrollment Public Charter Schools, July 1, 2010."

B. Summary of Preliminary Findings

1. Recording of the Funding and Related Expenditures

The following chart summarizes the Desegregation Funding provided by the ADE to the NLRSD and related expenditures recorded by the NLRSD:

	(in millions) FY 2006 - FY 2011
ADE Desegregation Funding	$45.1
Specific expenditures recorded in APSCN with Desegregation Source Funds	(26.8)
Balance – Unaccounted Use of Desegregation Funding	**$18.3**

a. Funding from the ADE

Of the $45.1 million Funding provided by ADE to NLRSD, Navigant was able to trace $36.9 million in APSCN. The difference is $8.2 million, which is attributed to FY 2006 ($7 million) and FY 2007 ($1.2 million). NLRSD began to report live in APSCN beginning in FY 2008, but performed a migration of accounting records related to FY 2007 from its previous accounting software AS/400 CIMS III ("AS/400") to APSCN. The NLRSD Chief Financial Officer (the "CFO") stated that the $7 million Desegregation Funding for FY 2006 is recorded in AS/400.[7] With regards to FY 2007, the CFO stated that he will review APSCN to determine if and where the $1.2 million of the Funding was recorded.[8]

b. Expenditures and Other Outflows Recorded in APSCN

i. Expenditure Amounts

There were specific expenditures reflected in APSCN that were recorded to Desegregation Source of Fund codes beginning in FY 2008, as summarized in the chart on the following page:[9]

[7] Navigant did not have access to the NLRSD's AS/400 accounting records and therefore is unable to independently analyze and confirm how the Desegregation Funding for FY 2006 was accounted for.

[8] Navigant prepared a list of follow-up questions as a result of its analysis of the NLRSD's recorded transactions in APSCN. This list was forwarded by the AG to the CFO and is annexed hereto in Appendix C. The CFO's responses to the follow-up questions are noted in red font in Appendix C. Navigant summarized its analysis of the CFO's responses regarding the $8.2 million difference and to Navigant's other follow-up questions in section VII of this report.

[9] A summary of the expenditures recorded by the NLRSD in APSCN by type and fiscal year is annexed hereto in Appendix A.

Expenditures Recorded to Desegregation Source of Fund Accounts

	Amount (in millions)
FY 2006	$ -
FY 2007	-
FY 2008	0.9
FY 2009	15.7
FY 2010	9.9
FY 2011	0.3
	$26.8

The CFO stated that for the past two fiscal years he began to make more efforts to properly match the Desegregation Funding with related expenditures. As the chart above reflects, there are significantly more expenditures recorded to Desegregation Source of Fund accounts for FY 2009 than in FY 2008.[10] The CFO stated that although these expenditures were recorded to Desegregation Source of Fund codes, they do not represent actual expenditures incurred for desegregation purposes. The end result is that it is largely impossible to determine what portion of the Desegregation Funding, if any, was actually used for desegregation-related purposes. As described in further detail in the next section of this report, the CFO stated that the Desegregation Funding is used to pay for general fund expenditures that exceed their respective budgets. Therefore, this information contradicts Daniel's statement that the Desegregation Funding is matched to expenditures incurred for desegregation programs and related purposes. Furthermore, the CFO cannot readily quantify the expenditures incurred for Desegregation purposes because such expenditures were not accounted for separately.

ii. Utilization of Desegregation Funding

The CFO stated that the source of Desegregation Funding has been utilized by NLRSD as a source of standard operating funds since inception of the settlement agreement. Typically, expenditures are recorded to general unrestricted source of fund accounts (i.e. 2000) during the year. If these fund accounts have recorded expenditures that exceeded their respective budget amounts, NLRSD is prevented from

[10] Navigant prepared a summary of the ADE Desegregation Funding and related expenditures by FY recorded by the NLRSD in APSCN, which is annexed hereto in Appendix A. Navigant has not reviewed the underlying supporting documentation related to the recorded expenditures to determine whether the expenditures were recorded accurately and properly classified.

closing it books and records in APSCN at year end.[11] Therefore, during the year end accounting close process, the CFO records journal entries to transfer Desegregation Funding amounts to the general unrestricted fund accounts with deficit balances. The amounts transferred equal the deficit amounts and "zero out" these fund accounts so that the fiscal year end close in APSCN can be performed.

Furthermore, Jones, outside legal counsel, stated that the funds NLRSD receives from ADE should not be characterized as "Desegregation Funding," but rather "incentive money (for NLRSD) to encourage kids in voluntary transfers." He added that historically this money was "intended to incentivize the school district to push for M-to-M" and was not stipulated by the State to be used for specific purposes.

2. There is a lack of documented policies and procedures provided to new and existing employees for guidance, proper segregation of duties and accountability.[12] Specifically with respect to Desegregation Funding, there are no policies and procedures and controls to address the appropriate tracking of the receipt and expenditure related to the Desegregation Funding. Additionally, there is no formal due diligence process for vetting new vendors before they are added to the NLRSD's vendor master list, thus creating potential opportunities to misuse the vendor master list for fraudulent purposes.

3. Accounts payable personnel that are responsible for the processing of vendor payables also have the ability to add or modify records in the vendor master list, a material internal control weakness that could possibly result in misappropriation of funds involving the use of fictitious vendors.

4. Some of the plant services department's blanket purchase orders are not advertised for competitive bidding. Additionally, the plant services department's blanket purchase order dollar amounts subject to approval by department supervisors, accounting department personnel and/or the NLRSD Board are higher than the dollar threshold established by the NLRSD Board.

5. The role of the accounting department in the auction of NLRSD fleet vehicles could not be assessed because there were no auctions conducted

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[11] The CFO stated that APSCN, by design, does not allow the year end accounting close to be completed if the expenditures are more than the budgeted amount for the account. It is unclear to Navigant whether state laws or regulation also prohibit year end accounting to close in a deficit situation.

[12] The CFO stated that the accounting department utilizes policies and procedures called Business Practices which are issued by the NLRSD Board and is part of the Board Policy Book. The CFO stated that he will provide a copy to Navigant. Based on the CFO's description, it appears that the Board Policy Book provides high level policies and procedures that are not necessarily relevant for the Accounting and Finance personnel to utilize in their daily responsibilities.

during the 18 months the Director of Purchasing/Finance & Auditing ("Director of Purchasing"), who is responsible to coordinate the auctions, joined NLRSD.

III. Details of Preliminary Analyses Performed by Navigant

A. Analysis of Desegregation Funding

1. The ADE

Navigant obtained and analyzed a schedule of the Funding payments made by the ADE to the NLRSD. Navigant traced these payments to verify the receipt of the Funding recorded by the NLRSD.

ADE personnel stated that they do not track the use of the Funding remitted to the School Districts or perform any oversight function in connection with the Funding, to verify and ensure that the School Districts are accounting for the Funding in the correct desegregation Source of Fund codes and that the Funding is used for its intended purpose. Furthermore, the ADE stated that they do not independently verify the accuracy and justification of the desegregation transportation expense reimbursement requests submitted by the School Districts. The ADE also does not verify that the Funding is recorded by the School Districts in APSCN in its designated desegregation Source of Fund or Revenue Account codes.

2. The NLRSD

The NLRSD utilized the accounting software AS/400 to maintain its books and records through June 30, 2007 (FY 2007). NLRSD began to report live on APSCN beginning on July 1, 2007 for FY 2008. NLRSD representatives stated that they migrated FY 2007 fund account totals from AS/400 to APSCN.[13]

Navigant's review of Funding records provided by the ADE and in APSCN[14] noted that the ADE allocated approximately $54.7 million to the NLRSD, of

[13] There are no transactions recorded in APSCN for FY 2006 with Desegregation Source of Fund codes. FY 2006 is the first fiscal year of Navigant's scope of analysis. NLRSD stated that the FY 2007 ending trial balance from AS/400 was input by hand into APSCN by his staff and different NLRSD staff members reviewed the input for accuracy. Navigant did not perform a forensic analysis to confirm that the data was migrated properly, accurately and completely.

[14] Funding records received from the ADE were for payments recorded as of October 25, 2010. Navigant analyzed Funding transactions recorded in APSCN for FY 2006 through current FY 2011 (December 9, 2010).

which approximately $45.1 million was paid directly to the NLRSD, as summarized in the following chart:[15]

ADE Desegregation Funding to the NLRSD
FY 2006 to FY 2011 (in millions)

Funding Category	Amount
Magnet School Funding	$9.6
Health Insurance & Teacher Retirement	10.4
M-to-M Revenue	27.8
Magnet & M-to-M Transportation	6.9
Total Desegregation Funding, FY 2006 to FY 2011	**$54.7**

The Magnet School Funding for the School Districts is calculated by the ADE and the portions allocated to the NLRSD and the PCSSD are sent directly to the LRSD because the six Stipulation Magnet Schools are in the LRSD.[16] Accordingly, the Magnet School Funding allocated to the NLRSD totaling approximately $9.6 million is not recorded in the NLRSD's APSCN accounting records.[17] Therefore, excluding this $9.6 million from the total Funding allocated to NLRSD of approximately $54.7 million, Navigant attempted to trace and analyze $45.1 million of ADE Funding in the NLRSD's APSCN accounting records, and the results are summarized in the chart on the following page:

[15] A summary of the ADE Desegregation Funding and related expenditures by FY recorded by the NLRSD in APSCN is annexed hereto in Appendix A. NLRSD representatives stated that the NLRSD does not receive any funding in connection with desegregation programs from Federal sources.

[16] The six Stipulation Magnet Schools in LRSD are Parkview High, Mann Middle, Williams Elementary, Carver Elementary, Gibbs Elementary and Booker Elementary.

[17] Navigant will review the total Magnet School Funding during its analysis of the LRSD.

in millions

	Fiscal Year						
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
ADE Funding	$ 7.0	$ 7.3	$ 6.9	$ 10.3[18]	$ 9.6	$ 4.0	**$ 45.1**
Recorded in APSCN	$ -	$ 6.1	$ 6.9	$ 10.3	$ 9.6	$ 4.0	**$ 36.9**
Not recorded in APSCN	7.0	1.2	-	-	-	-	**8.2**
	$ 7.0	**$ 7.3**	**$ 6.9**	**$ 10.3**	**$ 9.6**	**$ 4.0**	**$ 45.1**
Additional Transactions Recorded in APSCN	$ -	$ (0.4)	$ -	$ 0.5	$ (0.1)	-	**$ 0.0**

As noted in the chart above, of the $45.1 million Desegregation Funding provided by the ADE to the NLRSD, only $36.9 million was recorded by the NLRSD in APSCN. NLRSD representatives stated that the accounting records for FY 2006 are maintained in AS/400. The $7 million Desegregation Funding is not reflected in APSCN because only financial information pertaining to FY 2007 was migrated from AS/400 to APSCN.[19]

With regards to FY 2007, the CFO will review APSCN to determine whether $1.2 million of the Funding was recorded. Navigant will update this report to provide the AG with any additional information relating to this issue.

Furthermore, Navigant noted additional transactions recorded in APSCN as reflected in the chart above for FY 2007, FY 2009 and FY 2010 though the reasons for such transactions were not apparent. Accordingly, the CFO will also review these transactions in APSCN and the underlying accounting records to provide Navigant with an explanation for their purpose. Navigant will update this report to provide the AG with any additional information relating to this issue.

Of the $36.9 million of the Funding that was recorded in APSCN related to FY 2007 to FY 2011, Navigant noted that $993,224 was not recorded properly with the ADE designated desegregation Source of Fund codes in APSCN, as summarized in the chart on the following page:

[18] Navigant noted a significant increase of $3.4 million in the Funding for FY 2009 compared to FY 2008, which was primarily due to an increase of $3.0 million in Funding for 387 – Majority to Minority Incentive. The CFO explained that PCSSD closed Oak Grove High School and approximately 200-300 students were transferred to NLRSD as M-to-M students. Therefore, the increase in the Funding was related to the influx of these students to the NLRSD.

[19] Navigant did not have access to NLRSD's AS/400 accounting records to analyze how the Desegregation Funding for FY 2006 was accounted for.

Fiscal Year		Amount	ADE-Designated Source of Fund	Recorded Source of Fund
FY 2008	$	549,416[20]	2387	2000
FY 2010		443,808[21]	2388	2387
	$	**993,224**		

The CFO stated that he will review APSCN to determine why these amounts were not recorded in the ADE-designated Source of Fund codes.[22] Navigant will update this report to provide the AG with any additional information provided by the NLRSD regarding these recorded transactions.

B. Analysis of Expenditures Related to Desegregation Funding

1. Desegregation Funding Utilized as General Unrestricted Funds

The CFO stated that the Desegregation Funding has been utilized as unrestricted operating funds since inception of the Settlement Agreement. He added that the specific coding for the categories of the Desegregation Funds was not established until a few years ago by the ADE (i.e. 386, 387 and 388). Therefore, he accounted for the Funding as standard operating funds as did his predecessors in the NLRSD's accounting department. Accordingly, he stated that the Desegregation Funding is not treated differently from general unrestricted funds, although the CFO stated that NLRSD's receipt of Categorical Funding[23] from the State for specific programs such as ALE (Alternative Learning Environment), NSLA (National School Lunch Act) and ELL (English Language Learners) are accounted for separately.

He added that the Categorical Funding that NLRSD receives from the State is inadequate and "is woefully small compared to the number of students." Therefore the Desegregation Funding is used to pay for any Categorical program expenditures that are not fully funded by the State. Where expenditures related to Categorical-Funded programs exceeded the budget amounts for those programs a transfer journal entry is made to transfer Desegregation Funding to specific Categorical expenditure accounts with

20 The $549,416 represents part of the Funding provided by the ADE for 387 – Health Insurance & Teacher Retirement.

21 The $443,808 represents part of the Funding provided by the ADE for 388 – Magnet and M-to-M Transportation.

22 These transactions are included in the list of Navigant's follow-up questions that was forwarded by the AG to the CFO, which is annexed hereto in Appendix C.

23 Categorical Funding is targeted financial support to pay for specific student services and programs.

deficit balances with the amount transferred always equaling the exact deficit amount, thus "zeroing out" the expenditure account and allowing the fiscal year end to close in APSCN.

2. Specific Expenditures Recorded in Desegregation Source of Fund Codes

The following chart summarizes the Desegregation Funding and the related expenditures recorded in APSCN that represents the use of the Funding that Navigant identified:

FY 2007 to FY 2011	Amount	Percent
ADE Desegregation Funding	$ 36.9	100%
Less: Specific Expenditures Recorded in Desegregation Source of Fund codes	(26.8)	73%
Unaccounted Use of Desegregation Funding	**$10.1**	**27%**

As noted in the chart above, $26.8 million, or 73% of the Funding, was recorded to Desegregation Source of Funds codes in APSCN by the NLRSD. Although this amount may have been properly recorded to the appropriate source of fund codes, it may not have actually been spent for desegregation-related programs. In fact, as noted earlier in this report, the NLRSD treats the Desegregation Funding as unrestricted operating funds to pay for any shortfalls in the budgets of their operating fund accounts.

The remaining Desegregation Funding of $10.1 million was not even accounted for as expenditures with the Desegregation Source of Fund codes. Furthermore, the NLRSD did not properly match the Desegregation Funding to the actual desegregation–related expenditures because the Desegregation Funding was used to offset deficit balances in the general unrestricted accounts.24 The end result is that it is largely impossible to determine what portion of the Desegregation Funding, if any, was actually used for Desegregation-related purposes.

3. Funding Used for Desegregation Purposes

The Director of Assessment & Federal Programs (the "Director of Assessment") stated that pursuant to the Settlement Agreement, NLRSD developed a comprehensive desegregation plan (the "Plan") to satisfy the Federal District Court of the NLRSD's efforts to achieve unitary status, which would dismiss NLRSD from the litigation that led to the Settlement

[24] See the summary of the ADE Desegregation Funding and related expenditures by fiscal year recorded by the NLRSD in APSCN annexed hereto in Appendix A.

Agreement.[25] She administers and oversees compliance with Sections 4 – Compensatory Education and Section 5 – Compensatory Programs Aimed At Dropout Prevention.

She stated that at the onset of the Settlement Agreement in early 1990, NLRSD decided to use approximately $1.6 million of the Desegregation Funding to expand the number of student computer labs to 28 schools.[26] The student computer lab expansion was undertaken in connection with Section 4 of the Plan. She stated that this expansion was her only involvement with using Desegregation Funding. She added that the last instance the Desegregation Funding was used to expand the number of student computer labs took place in 1992 or 1993. The establishment of additional student computer labs in schools was taken to target at-risk students in grades K-6, particularly students enrolled in schools near Federal housing projects, whose residents were predominantly of African-American descent.

The Director of Assessment also stated that her role is to identify ways to further the Plan with funding from other sources other than from the Desegregation Funding. She added that Section 4 of the Plan is partially funded by Federal Title 1[27] and State Categorical funding.

4. NLRSD's Outside Legal Counsel's Views on the Funding

During Navigant's interview of NLRSD's Assistant Superintendent for Desegregation and Student Services, Jones arrived unannounced, and provided Navigant his views and opinions regarding the Desegregation Funding.

Jones informed Navigant that he has represented NLRSD for 27 years in connection with the Settlement Agreement and noted that he wrote the NLRSD's Desegregation Plan. His stated that because NLRSD is a single school system for all students, there is "not much of a dividing line" between funding for "desegregation" or "education" purposes. Accordingly, he stated that NLRSD does not receive "Desegregation Funding" from the State, but rather "incentive money (for NLRSD) to encourage kids in voluntary transfers." He added that historically this money was "intended to incentivize the school district to push for M-to-M," and was not stipulated by the State to be used for specific purposes.

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[25] The Plan, dated April 29, 1992, was created by the NLRSD to address and remediate violations of racial disparities in programs and activities in any schools in the NLRSD.

[26] Initially, the NLRSD used Federal Title I funding to establish the first eight student computer labs.

[27] Title I refers to specific program funding provided by the Federal government pursuant to the Elementary/Secondary Education Act (ESEA).

Jones further stated that the desegregation matter is a political matter in the State legislature but noted that he is "not opposed to doing away" (with the related Desegregation Funding). He also stated that NLRSD receives funding from the Federal government (i.e. Title I) to pay for compensatory education programs. He stated that if NLRSD qualifies for Title I funding to pay for its compensatory education programs, then this will "save State dollars" that can be used for something else.

Jones also stated that Desegregation Funding was not treated "as separate programs for white and blacks", although he conceded that approximately 80-90% of the at-risk kids are of African-American descent. As an example, he stated that the State is not required to provide transportation to at-risk students to participate in extra-curricular activities.[28] Therefore NLRSD uses some of the incentive funding from the ADE to pay for such transportation expenses. Jones added that discontinuing the incentive funding will eliminate, or "de-fund some discretionary programs" for at-risk students.

Jones stated that if NLRSD is declared unitary, the State's position is that the incentive funding will cease. Jones' position, however, is that the incentive funding was pursuant to a "settlement contract (a race-based contract related to distribution of students) with the State to promote, through incentive money, the Magnet and M-to-M students. The remedy is movement of kids." Accordingly, the incentive funding is "needed to maintain the composition," and the "discretionary spending is heavily towards programs for at-risk kids."

C. Other Preliminary Findings and Observations

During interviews of NLRSD representatives, Navigant observed numerous issues and concerns related to internal control weaknesses in NLRSD's operations. In response to these issues and Navigant's preliminary assessment of the NLRSD's financial and operational internal control environment, Navigant prepared a preliminary list of recommendations in section VI of this report.[29]

1. Lack of Operating Policies and Procedures

NLRSD accounting department personnel conceded that there are no written operating policies and procedures related to the accounting, utilization and recording of the Desegregation Funding. The CFO has the sole discretion on the use of the Funding and classifies which expenditures are paid with the

[28] NLRSD's Assistant Superintendent for Desegregation and Student Services and Jones believe that extra-curricular programs help at-risk students to become more involved with their school, reinforce positive behaviors and improve academic performance. At this point however, NLRSD has not provided any documentation showing the specific programs that were funded with the Desegregation Funding. In addition, the statement by NLRSD's Assistant Superintendent for Desegregation and Student Services appears to be somewhat inconsistent with the CFO's statement that the Desegregation Funding is first used to fund the budget deficits discussed above.

[29] See summary matrix of potential issues and observations prepared by Navigant annexed hereto in Appendix B.

Funding and assigns the Desegregation Source of Fund codes to the expenditures.

The following section describes the lack of policy and procedures in connection with accounting for the Funding and other functions based on the interviews conducted by Navigant to date:

a. Accounting for Desegregation Funding and Related Expenditures

The NLRSD receives the Desegregation Funding from the State via wire. Typically, the NLRSD receives documentation from the State related to the Funding (i.e. statement and/or calculation summary), which the CFO reviews for mathematical accuracy. This documentation is then forwarded to the CFO's secretary, who verifies receipt of the Funding by reviewing NLRSD's bank statements. Only the CFO can input journal entries in APSCN including recording the receipt of the Funding. The Director of Purchasing prepares the journal entries on a form for the CFO to review and then inputs the entries in APSCN.

b. Use of Funding for Desegregation Programs

Because the CFO treats the Funding as general unrestricted funds, it appears there is no proper accounting of the Funding used for specific Desegregation Programs. The CFO stated that typically general unrestricted funds (i.e. Source of Fund 2000) are used to record expenditures during the year, even if the expenditures are related to a Desegregation Program. The Funding is transferred, as needed, to the general unrestricted funds during the fiscal year end accounting close process to fund, or "zero out", accounts whose expenditures exceeded the budgeted amounts. Accordingly, the Funding is utilized by the NLRSD simply as additional monies to pay for its operating expenses. As noted earlier in this report, although only $26.8 million of expenditures were recorded with Desegregation Source of Fund codes for FY 2007 to FY 2011, such expenditures are not related to specific Desegregation purposes. The NLRSD did not separately account for expenditures incurred for Desegregation purposes and therefore Desegregation Funding cannot be accurately matched with the related expenditures.

Furthermore, the CFO is the only NLRSD employee with the discretionary authority to determine the use of the Funding. Because he is the only approver in connection with payment of expenditures with the Funding, he can unilaterally decide how the Funding is used. The lack of other accounting, budgeting or finance personnel or anyone from other departments, results in ineffective oversight and checks and balances in connection with how the Funding is utilized. Additionally, no one else can independently assess and track whether the Funding was expended properly and for its intended desegregation purpose.

c. Desegregation Transportation Operating Expenditure Reimbursement

The School Districts receive desegregation Funding from the ADE related to operating expenditures incurred in connection with the NLRSD's transportation of its Magnet and M-to-M students.[30] The School Districts are required to calculate and prepare a transportation expenditure reimbursement request to the ADE.[31] The CFO stated that he prepares the reimbursement calculation using the same template that was utilized when he assumed the responsibilities as the NLRSD's CFO six years ago. The CFO stated that he receives transportation expense information from the NLRSD's Director of Transportation, to prepare the calculation.

The calculation involves allocating a percentage of transportation expenses that are recorded in the general operating fund on the basis of the number of bus routes that transport Magnet and M-to-M students.[32] The CFO agreed with Navigant that the calculation is not prepared in a consistent and transparent manner. For example, some of the expense categories were allocated based on the ratio of bus routes that were assigned to Magnet and M-to-M buses and some of the expense categories were allocated 100%. Daniel's reply confirmed Navigant's understanding that some of the expense amounts (i.e. gasoline) that were allocated 100% in calculation were in fact derived from the larger, total expense amount. As a simple hypothetical example, the transportation reimbursement calculation included the following expenses and

[30] The desegregation transportation expense reimbursement that is paid by the ADE is referred to as desegregation Source of Fund code 388.

[31] Operating expenses include bus driver salaries, maintenance of buses and overhead. Navigant performed a preliminary review of a sample of transportation expense reimbursement requests from the School Districts and noted that it appears each School District utilized a different methodology to calculate their respective reimbursement amounts and there was no consistency in the supporting documentation submitted.

[32] Navigant learned that there is a degree of subjectivity involved in preparing the reimbursement amount as it involves estimates and assumptions. Because some transportation expenditure categories cannot be directly attributed to transportation of only Magnet and M-to-M students, the calculation involves applying a percentage, which is derived from the pro-rata number of school bus routes designated to transport Magnet and M-to-M students, to certain transportation expenditure categories.

The Director of Transportation stated that approximately 15 years ago, the Arkansas Legislative Audit reviewed the calculation of the transportation expense reimbursement process and agreed that using the ratio of Magnet and M-to-M routes as the basis to pro-rate the transportation expenses was appropriate. Navigant could not confirm that this methodology was approved by the Arkansas Legislative Audit because there was no corresponding supporting documentation provided.

percentage allocations (assuming that the ratio of Magnet and M-to-M bus routes to regular bus routes is 25%):

Expense Category	Expense Amount	Allocation %	Reimbursement Amount
Supervisor Salaries	$100,000	25%	$ 25,000
Gasoline	$100,000	100%	$100,000

In this example, the total gasoline expense was $400,000 ($100,000/.25), but the expense amount was reflected on the reimbursement calculation as the net amount derived from applying the 25% Magnet and M-to-M bus route ratio to the total gasoline expense of $400,000.

Navigant also noted that the reimbursement calculation includes an expense category called Indirect Cost. The CFO stated that 3.25% was historically allocated to Indirect Costs category but he is not sure what expenses this category is comprised of. He also stated that if the Indirect Costs category included expenses for bus parts, then this would be double counting of certain expenses.

2. Accounts Payable Department

The accounts payable department consists of five Accounts Payable clerks/bookkeepers ("Accounts Payable clerks").[33] All payments (i.e. vendor invoices and employee expense reimbursement) processed by Accounts Payable are associated with a purchase order.

a. Purchases from Vendors

Typically, a school teacher initiates the need to make a purchase (i.e. classroom supplies). The school secretary would prepare an online purchase order that includes the pertinent details of the purchase (i.e. vendor, item quantity, description and price) and the 16-digit budget unit account number to which the purchase will be charged.[34] A sequential purchase order number is generated and assigned by the purchase order application in APSCN. This purchase order is then printed on a 4-part NCR paper form and then forwarded to the school's principal or department supervisor for the initial review and approval. Approvals are

[33] Two clerks/bookkeepers are responsible for processing payments for vendors and employees (i.e. expense reimbursements). Three clerks/bookkeepers (one clerk is a part-time employee) are responsible for processing employee payroll.

[34] The Director of Purchasing stated that APSCN does not allow a purchase order to be generated if the budget string assigned to the purchase order has insufficient funds to pay for the purchase. The CFO stated that if there are insufficient or no funds in a budget unit, the requestor would need to first initiate a fund transfer request with the Director of Purchasing to create the purchase order. This is a simple process as long as the funds being transferred are not restricted to be used for a specific purpose.

not submitted online. The principal or department supervisor signs the purchase order to designate his approval and forwards the purchase order document (but retains the pink copy for the school's records) to the Director of Purchasing for NLRSD, who reviews and approves all purchase orders. The Director of Purchasing or his Accounts Payable clerks would verify that the budget unit account referenced in the purchase order is appropriate for the items to be purchased. If the budget unit account is incorrect, the Director of Purchasing would email the school secretary to inquire and make the necessary correction on his copy of the purchase order documentation. After the purchase order is reviewed and approved, the Director of Purchasing places the order to purchase the items from the vendor.

The Director of Purchasing stated that the Board Policy Book outlines the dollar thresholds and the required approvals for purchases:

- Phone quotes for purchases up to $1,000
- Three written quotes for purchases exceeding $5,000-$6,000
- Board approval for purchases over $10,000

Vendor invoices are typically sent to the NLRSD. If a school receives the invoice directly from the vendor, the school would match their pink copy of the purchase order to the invoice and then forward to the NLRSD's accounting department with any additional documentation (i.e. receiving report) for payment. The Director of Finance reviews the invoice, the related purchase order on file and other relevant documentation and denotes approval with his signature and date signed on the invoice. Then he forwards this documentation to the Accounts Payable clerks to process the check payment.

Vendor invoices are all paid by paper checks.[35] The hardcopy vendor files are maintained by check number. Therefore there are no individual files created for each vendor. The CFO stated that checks to vendors are generally mailed by the Accounts Payable clerks and are never held at the NLRSD offices for vendors to pick up, however, Navigant's interview of one of the Accounts Payable clerks ("A/P Clerk") revealed that she has held checks for pick up by "well known" vendors. The A/P Clerk also stated that she knows certain vendors need the check payments sooner and would call them to determine whether she should mail the checks or hold them for pick up.

[35] Vendor invoices are not paid by wire. Employee payroll are paid by direct deposit and certain payroll taxes are paid by wire.

b. Employee Expense Reimbursement

Employee expense reimbursement requests (i.e. for travel expenses) are also initiated by purchase orders. These requests are processed and administered by two Accounts Payable clerks. The employee returns any unspent amounts by issuing a personal check to the NLRSD. Travel expense reimbursements made to employees can be held for pickup by the employee who must sign a log upon picking up the check.

c. Vendor Master List

CFO stated that only limited Accounting department personnel can access the vendor master file both in AS/400 and APSCN: the CFO, the Director of Finance and the two Accounts Payable clerks. The CFO also stated that there are no written policy and procedures in connection with adding a new vendor, although very few new vendors added. The CFO explained the following process of adding a new vendor to the vendor master list in APSCN:

- New vendor request is submitted via email to the Accounting department with the pertinent information (i.e. vendor name, address, telephone number).[36]

- Accounting department personnel (typically Director of Purchasing) would call the vendor or view its website to verify its existence and the products. The vendor company's President or Vice President would be identified during this inquiry to determine any related party relationship(s).

Navigant's interview of the Director of Purchasing (the Director of Finance) and the A/P Clerk regarding the process to add new vendors contradicted the information provided by the CFO. The Director of Purchasing and the A/P Clerk stated that there is no formal process to approve and add a new vendor to the vendor master list. The Director of Purchasing conceded that the lack of a form W-9 for a prospective vendor will not preclude the vendor from being added to the vendor master list. The A/P Clerk stated that she does not perform any due diligence on new vendors and that she has added new vendors solely based on the information on the vendor's invoice.

Navigant also noted that the Director of Purchasing has conflicting responsibilities in his three roles: Director of Purchasing, Director of Audit and Director of Finance. The Director of Purchasing should be responsible for adding or modifying vendor records and maintaining the

[36] The CFO stated that there may be a form available to request approval for a new vendor but it is not used consistently.

vendor master files. Furthermore, the Director of Purchasing role should not have any responsibilities that involve finance or audit functions.

The CFO also stated that he requested APSCN personnel to delete duplicate or inactive vendors in their vendor master list but this request was denied.[37]

Currently, Accounts Payable personnel can add new vendors. Accounts Payable and Purchasing personnel conceded that there is no segregation of duties nor written policies and procedures in connection with adding a new vendor.

3. Blanket Purchase Orders

Navigant's interviews reveal that the transportation and plant services departments have blanket purchase orders to procure goods and services.

a. Transportation Department

The Director of Transportation stated that his department has about 10-15 blanket purchase orders. There are blanket purchase orders for tires with 2-3 vendors because of different tire sizes. Mitch's Tire Service is one of the vendors that assesses the condition of the NLRSD fleet vehicles' tires and replaces them as necessary. The Director of Transportation stated that these purchase orders were awarded to these vendors as a result of the competitive bidding process.

There are also blanket purchase orders with vendors such NAPA Auto Parts and Diamond International to purchase basic bus parts and accessories such as vehicle air filters. The amount of the blanket purchase order with NAPA is $20,000. The shop foreman typically calls in the order to the vendor or goes to the vendor's store to make the purchase. The vendor normally issues a ticket or receipt that the foreman would write what bus is purchase is for. Every two weeks, these tickets and receipts are collected by the Director of Transportation's secretary who matches them to the specific blanket purchase orders. This documentation package is prepared and forwarded to the Director of Transportation and the Assistant Superintendent for Desegregation and Student Services for review and approval. Afterwards, the approved documentation package is forwarded to the NLRSD's Accounting department for approval and payment processing.

[37] APSCN, by design default, does not permit the deletion, deactivation or suspension of vendors that are no longer used to purchase goods or services.

The Director of Transportation stated that he is not aware of any purchases using these blanket purchase orders that were not for the school district's purposes.

b. Plant Services Department

The Administrative Director of Plant Services (the "Director of Plant Services") stated that his department has about 40 blanket purchase orders and not all of them were advertised for competitive bidding because some are under the $10,000 threshold limit that his department follows. This contradicts the NLRSD Board policy on the blanket purchase order dollar thresholds that are subject to competitive bidding procedures. He conceded that the NLRSD Board's policy is more strict because purchases more than $1,000 and $5,000 require phone and written quotes,[38] respectively. Purchases for more than $10,000 require the approval of the NLRSD's Board.

If an employee in his department needs to purchase supplies, he would take a copy of the blanket purchase order or purchase order card[39] to the store to make the purchase. The employee will forward the receipt to the Maintenance department secretary to match to the purchase order documentation and prepare a payment request that is submitted to the NLRSD's Accounting department for review and approval.

The Director of Plant Services stated that he accesses APSCN to monitor how much funds are remaining in the blanket purchase orders. He stated that he is not aware that any items purchased using the blanket purchase orders were misappropriated by his employees.

IV. Limitations

The preliminary observations and assessments detailed in this report are based on Navigant's methodology, data collection, interviews, analyses and the procedures performed to date. Navigant relied on the quality, availability and veracity of the information and data provided by the ADE, the NLRSD and third parties during the course of its work.

Navigant's preliminary observations and analyses do not constitute legal advice or a legal opinion.

Navigant based its preliminary observations and analyses solely on the information and documents provided and has not verified the information and documents or

[38] The Director of Plant Services stated that he performs a majority of the phone quotes.

[39] The Director of Plant Services stated that, for example, he has blanket purchase orders at large retail stores such as Home Depot and Lowe's. For these stores, he has cards imprinted with the respective purchase order numbers.

otherwise sought independent confirmation thereof. In making observations and analyses, Navigant has, in part, relied on assertions made by the representatives of the NLRSD and the ADE.

Given the limitations discussed above, the procedures performed by Navigant, and the extent of the information collected, Navigant cannot be certain at this time that all of the information collected is accurate or complete. Had Navigant performed additional procedures beyond those described, it is possible that additional information may have come to Navigant's attention that would have been relevant to its efforts.

The preliminary findings and observations set forth herein are based solely on the work performed through the date of this report. As work progresses, it is possible that the analyses and findings may change as additional information is obtained and additional procedures are performed.

Navigant did not conduct an audit, compilation or review of NLRSD's financial statements or financial information as those terms are understood in the United States and defined by professional guidance promulgated by the American Institute of Certified Public Accountants. Accordingly, Navigant does not express an opinion or other form of assurance on any financial statements or financial information. Navigant's findings are limited to the information reviewed and the procedures performed.

V. Procedures Performed to Date

Navigant performed the following procedures to date:

A. Interviews Conducted

Navigant conducted the interviews of the following NLRSD representatives:

1. Assistant Superintendent for Desegregation and Student Services
2. Chief Financial Officer and Chief Information Services Officer
3. Director of Purchasing/Finance & Audit
4. Accounts Payable Clerk/Bookkeeper
5. Director of Assessment & Federal Programs
6. Director of Transportation
7. Administrative Director of Plant Services
8. Director of Human Resources

B. Documents and Information Reviewed

1. NLRSD journal entries recorded in APSCN for FY 2007 to FY 2011 (as of December 9, 2010) to known Desegregation codes.

2. NLRSD organization chart.

3. NLRSD Desegregation Plan, April 29, 1992.

VI. Recommendations

To assist the NLRSD in mitigating potential fraud, waste and abuse risk going forward, Navigant has compiled the following preliminary list of recommendations based on the interviews conducted and the review of relevant documentation and information to date:

A. Separate Reporting of Desegregation Funding

Navigant recommends that the NLRSD record and maintain its financial information and the related transactions in connection with the Funding in accordance with the appropriate desegregation codes established by the ADE. The Funding and related expenditures should not be commingled with general unrestricted fund accounts and should be transparent.

B. Establish Separate Roles in Connection with the Desegregation Funding

Separate roles should be established in connection with the use of the Funding including initiation, review and approval. Currently the CFO has all of these responsibilities.

C. Train Employees on the Proper Use of Desegregation Funding

NLRSD personnel involved with the finance, accounting and budgeting functions should be familiar with the purpose of the desegregation Funding and how the Funding should be properly utilized for desegregation programs.

D. Review the Methodology to Calculate the Transportation Reimbursement

The NLRSD accounting department and transportation department personnel should review their methodology to calculate the transportation reimbursement. They should understand and be able to justify the various expense categories, variables and basis used that are included in the methodology. The calculation should be transparent so that a third party can understand and corroborate the information.

E. Retain an Independent Monitor

The AG may want to consider requiring the NLRSD to retain an independent monitor to implement anti-fraud programs for the purpose of deterring, preventing, uncovering and reporting unethical and illegal conduct, particularly over NLRSD's processes related to financial reporting and operations.[40]

F. Conduct Annual Audits on the Use of Desegregation Funding

Separate annual audits should be conducted related to Desegregation Funding by NLRSD accounting personnel, the Arkansas Legislative Audit, the independent monitor or another independent third party.

G. Limit the Use of Blanket Purchase Orders

The NLRSD should limit the use of blanket purchase orders to minimize the risk of misappropriation. Blanket purchase orders that are subject to additional approvals by department supervisors, Accounting personnel and/or the NLRSD Board should abide by the dollar thresholds established by the Board. Individual departments should not be able to override or increase the dollar amount thresholds subject to additional approval requirements. Furthermore, all blanket purchase orders that exceed certain dollar thresholds established by the NLRSD Board should be advertised for competitive bidding.

H. Establish, Implement and Communicate Policies and Procedures

Navigant recommends that formal internal control structure policies and procedures be implemented in connection with the following:

1. Establish and communicate written policy and procedures

Written accounting policies and procedures should be created to document the proper procedures to record financial transactions, process and approve expenditures, and review and audit of the books and records. These policies and procedures should be communicated to all employees who are involved with the accounting function and they should receive formal training and updates at least annually. Furthermore, these policies and procedures should be communicated to new employees during the on-boarding process.

[40] For example, an independent private sector inspector general ("IPSIG") is a mechanism often used by government entities involved with large contracts to monitor an organization's compliance with relevant laws and regulations and to prevent, uncover and report illegal acts. IPSIG services involve the design and execution of fraud prevention and detection programs customized to respond to particular fraud, abuse, waste, corruption or other illegal conduct. See the International Association of Independent Private Sector Inspectors General's website at http://www.iaipsig.org.

Relevant, documented and practical operating policies and procedures that are communicated to NLRSD personnel can minimize ambiguity, promote consistency in carrying out one's functions and establish accountability.

2. Vendor master list

   a. Restrict write-access and implement segregation of duties

      Accounts Payable personnel should only have read-only access to the vendor master list because they process vendor payments. Accordingly, Accounts Payable personnel should not have the ability to add vendors or modify vendor information. The Director of Purchasing should be responsible for adding or modifying vendor records and maintaining the vendor master files. Therefore, the Director of Purchasing role should not have any responsibilities that involve finance or audit functions.

   b. Establish and implement a formal due diligence process for new vendors

      Before a new vendor is added to the vendor master list, an employee should prepare a documentation folder to include the vendor's Form W-9 and other due diligence documentation that verifies the identity and existence of the vendor, and to identify any potential affiliations with NLRSD employees or Board Members.

      A formal questionnaire should be formulated to require detailed information related to the prospective vendor including names of principals, address, EIN and Tax ID #s, contact person(s), industry code and other pertinent information. This questionnaire should be required to be completed by the employee who request approval of a new vendor. The completed questionnaire should be submitted to the Director of Purchasing who should review and perform due diligence vetting procedures to corroborate the information provided. If approved, a different accounting department employee should add the new vendor to the master vendor list. No employee with the capacity to process checks or make payments should be allowed to modify vendor information.

VII. Additional Information Provided by the NLRSD

On February 28, 2011, Ms. Debby Linton, outside legal counsel for the NLRSD, forwarded on behalf of NLRSD, its responses to Navigant's document and information requests. Accordingly, this section summarizes Navigant's analysis of the additional documents and information provided by the NLRSD:

A. Documents provided by the NLRSD

   The following documentation was provided to Navigant:

- The NLRSD Accounting department organization chart, updated August 19, 2010.[41]

- Policy and procedure excerpts from the NLRSD Board Policy Book.[42]

- Responses to Navigant's follow-up questions from its preliminary analysis of the NLRSD's recorded transactions in APSCN.[43]

B. The NLRSD's View on the Purpose of the Desegregation Funding

The NLRSD's response reiterated its position that the Desegregation Funding it receives from the ADE is incentive funding that is not restricted in use for Desegregation Programs. Furthermore, the NLRSD stated that the Desegregation Funding was historically, and continues to be, treated as incentive funding from the ADE, "which is intended to encourage NLRSD's participation in the M-to-M and Magnet School transfers." The NLRSD also stated that the Desegregation Funding is the primary source of funds to support their student programs as outlined in their Desegregation Plan.[44]

C. Recording of the Receipts and Expenditures of the Desegregation Funding

The NLRSD provided additional information related to its recording of the receipts and expenditures of the Desegregation Funding. The NLRSD stated that its APSCN records reflect those amounts received from the ADE. Furthermore, the NLRSD stated that the expenditures related to the Desegregation Funding were not recorded separately to distinguish from the general unrestricted operating fund (Source of Fund 2000).

As summarized in the chart on page 8 of this report, Navigant's preliminary review of the NLRSD's transactions recorded in APSCN revealed $8.2 million of the Desegregation Funding paid by the ADE during FY 2006 and FY 2007 was not recorded in APSCN and additional transactions were recorded in APSCN that required the NLRSD to provide an explanation. This chart from page 8 is as follows:

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41 Annexed hereto in Appendix D. The excerpts were Section 7 of the NLRSD Board Policy Book and were noted as adopted on June 26, 1986 and last revised on July 17, 2008.

42 Annexed hereto in Appendix E.

43 Annexed hereto in Appendix C. The NLRSD's responses are noted in red font.

44 The NLRSD developed a comprehensive desegregation plan (the "Plan") to satisfy the Federal District Court of the NLRSD's efforts to achieve unitary status, which would dismiss NLRSD from the litigation that led to the Settlement Agreement. The Plan, dated April 29, 1992, was created by the NLRSD to address and remediate violations of racial disparities in programs and activities in any schools in the NLRSD.

in millions

	Fiscal Year						
	2006	2007	2008	2009	2010	2011	Total
ADE Funding	$ 7.0	$ 7.3	$ 6.9	$ 10.3	$ 9.6	$ 4.0	**$ 45.1**
Recorded in APSCN	$ -	$ 6.1	$ 6.9	$ 10.3	$ 9.6	$ 4.0	**$ 36.9**
Not recorded in APSCN	7.0	1.2	-	-	-	-	**8.2**
	$ 7.0	**$ 7.3**	**$ 6.9**	**$ 10.3**	**$ 9.6**	**$ 4.0**	**$ 45.1**
Additional Transactions Recorded in APSCN	$ -	$ (0.4)	$ -	$ 0.5	$ (0.1)	-	**$ 0.0**

For FY 2007, Navigant's preliminary review of the NLRSD's transactions recorded in APSCN revealed that approximately $1.2 million of the Desegregation Funding paid by the ADE during FY 2007 was not recorded.[45] Additionally, Navigant noted that an adjustment to decrease revenue of $406,459 was recorded by the NLRSD. The following charts summarize the discrepancies noted by Navigant for FY 2007:[46]

FY 2007 Funding Not Recorded in APSCN	
387 - Health Insurance & Teacher Retirement	$ 835,501
388 - Magnet & M-to-M Transportation	406,459
	$ 1,241,960

FY 2007 Revenue Decrease Adjustment Recorded in APSCN	
387 - M-to-M Revenue	**$ 406,459**

1. 387 - Health Insurance & Teacher Retirement

   For FY 2007, Navigant's preliminary analysis of the NLRSD's transactions recorded in APSCN revealed that approximately $835,501 of the Desegregation Funding related to 387 - Health Insurance & Teacher Retirement paid by the ADE during FY 2007 was not recorded. The chart on the following page summarizes the payments made by the ADE to the NLRSD related to 387 - Health Insurance & Teacher Retirement during FY 2007 and the amounts reflected and not reflected in APSCN:

45 As noted earlier in this report, NLRSD representatives stated that the accounting records for FY 2006 are maintained in AS/400. Therefore, the $7 Desegregation Funding is not reflected in APSCN. Navigant did not have access to the NLRSD's AS/400 accounting records to analyze how the Desegregation Funding for FY 2006 was accounted for.

46 The $1.2 million not recorded in APSCN for FY 2007 was summarized in the chart on page 8 of this report.

FY 2007 ADE Funding for
387 - Health Insurance & Teacher Retirement

FY 2006 Final Settlement	$	417,751
FY 2007 payments:		
September		151,911
October		151,911
November		151,911
December		151,911
January		151,911
February		151,911
March		151,911
April		151,911
May		151,911
June		151,911
Total ADE Funding for FY 2007	**$**	**1,936,864**
Recorded in the NLRSD's APSCN	$	1,101,363
Not Recorded in the NLRSD's APSCN		835,501
	$	**1,936,864**

It appears that the $835,501 not recorded in the NLRSD's APSCN for FY 2007 is equal to twice the ADE payment related to FY 2006 Final Settlement amount of $417,751 that was paid by the ADE during FY 2007. Accordingly, it appears that the NLRSD may have erroneously made a duplicate adjustment to its FY 2007 records to reclassify the ADE payment attributed to FY 2006. Therefore, the Desegregation Funding for 387 - Health Insurance & Teacher Retirement related to FY 2007 is understated by $417,751.[47]

2. 388 - Magnet & M-to-M Transportation

   For FY 2007, Navigant's preliminary analysis of the NLRSD's transactions recorded in APSCN revealed that approximately $406,459 of the Desegregation Funding related to 388 - Magnet & M-to-M Transportation paid by the ADE during FY 2007 was not recorded. The chart on the following page summarizes the payments made by the ADE to the NLRSD related to 388 - Magnet & M-to-M Transportation during FY 2007 and the amounts reflected and not reflected in APSCN:

[47] Because the NLRSD recorded its accounting transactions in AS/400 for FY 2006, Navigant was not able to independently analyze and confirm whether any corresponding adjustments and reclass journal entries made by the NLRSD pertaining to FY 2006 were properly recorded.

FY 2007 ADE Funding for
388 - Magnet & M-to-M Transportation

FY 2006 Final Payment (October 2006)	$	406,459
FY 2007 payments:		
First payment (October 2006)		333,218
Second payment (March 2007)		333,218
Total ADE Funding for FY 2007	**$**	**1,072,894**
Recorded in the NLRSD's APSCN	$	666,435
Not Recorded in the NLRSD's APSCN		406,459
	$	**1,072,894**

It appears that the $406,459 not recorded in the NLRSD's APSCN records for FY 2007 is equal to the ADE's final payment pertaining to FY 2006 that was paid during FY 2007.[48] Accordingly, it appears that the NLRSD properly excluded the $406,459 ADE payment that was related to FY 2006 from its FY 2007 APSCN records, however, Navigant was not able to confirm that the $406,459 was recorded properly in AS/400 for FY 2006 because Navigant does not have access to the NLRSD's AS/400 accounting records.

Additionally, Navigant's analysis noted that in the subsequent fiscal years the payments of the 388 - Magnet & M-to-M Transportation funding from the ADE accounted for by NLRSD in APSCN for FY 2008 to FY 2011 were recorded in the respective fiscal years that they were received (i.e. the third and final payment related to FY 2007 is received in September 2007, which is in FY 2008, but is recorded in FY 2008 accounting records).[49] Accordingly, for FY 2008 to FY 2011 the NLRSD APSCN did not reflect any adjustments to reclassify final payments from the ADE that are received in the subsequent fiscal years to which they are related.

Navigant also noted that for FY 2009, although the NLRSD's APSCN reflected the 3 payments made by the ADE during FY 2009, the following two additional revenue journal entries were reflected in the NLRSD's APSCN Revenue Audit Trail for FY 2009 which nets to $461,908:

"Book MM Transp cost"	$ 1,300,628
"Adj Mag Transp"	(838,720)

[48] ADE representatives informed Navigant that ADE makes three payments for 388 - Magnet & M-to-M Transportation each fiscal year, however, the third payment is typically made at the beginning of the following fiscal year.

[49] ADE representatives informed Navigant that two months after the fiscal year end (August 31), the APSCN books and records are closed and the School Districts cannot make any adjustments.

Because the NLRSD's APSCN already recorded the 3 payments made by the ADE during FY 2009, these additional journal entries, which nets to $461,908, appears to overstate the Desegregation Funding related to 388 - Magnet & M-to-M Transportation for FY 2009.

3. 387 - M-to-M Revenue

   Navigant also noted that the NLRSD APSCN records reflected an adjustment of ($406,459) to 387-M-to-M Revenue. The dollar amount is equal to ADE's final payment for FY 2006 pertaining to 388 - Magnet & M-to-M Transportation, which is noted in the previous chart above. Accordingly, it appears the NLRSD not only recorded a duplicate adjustment, but also to the wrong Source of Fund code. Therefore, the Desegregation Funding for 387 - M-to-M Revenue related to FY 2007 is understated by $406,459.

   Navigant also noted that for FY 2010, the NLRSD's APSCN reflected a decrease of $58,059 to Source of Fund 387 - M-to-M Revenue. The NLRSD stated that this amount represents a repayment to the ADE for an overpayment that the ADE made to the NLRSD.

Based on the analysis described above, it appears that the net Desegregation Funding recorded for FY 2006 to FY 2011 in the NLRSD's APSCN were understated by $7,362,302, as summarized in the following chart:

Summary of Net Understated Desegregation Funding in APSCN for FY 2006 to FY 2011

	Over/(Understated)
FY 2006 Desegregation Funding[50]	$ (7,000,000)
387 - Health Insurance & Teacher Retirement	
Duplicate adjustment related to FY 2006 Final Settlement recorded in FY 2007	$ (417,751)
387 - M-to-M Revenue	
Duplicate adjustment related to 388 - Magnet & M-to-M Transportation recorded in FY 2007	(406,459)
388 – Magnet & M-to-M Transportation	
Additional journal entries recorded in FY 2009	461,908
Total Net Understated Desegregation Funding	**$ (7,362,302)**

50 The CFO stated that the $7 million Desegregation Funding for FY 2006 is recorded in AS/400. Navigant did not have access to the NLRSD's AS/400 accounting records and therefore is unable to independently analyze and confirm how the Desegregation Funding for FY 2006 was accounted for.

4. Incorrect Source of Funds

   As noted on pages 8 and 9 of this report, Navigant's analysis revealed that $993,224 was not recorded properly with the ADE designated desegregation Source of Fund codes in APSCN, as summarized in the following chart:

Fiscal Year		Amount	ADE-Designated Source of Fund	Recorded Source of Fund
FY 2008	$	549,416[51]	2387	2000
FY 2010		443,808[52]	2388	2387
	$	**993,224**		

   The NLRSD conceded that the $993,224 was recorded erroneously and was not corrected.

5. Expenditures related to the Desegregation Funding

   The NLRSD stated that the expenditures related to the Desegregation Funding were not recorded separately to distinguish from the general unrestricted operating fund (Source of Fund 2000).

D. Results of Navigant's Updated Preliminary Analysis

   Navigant's updated preliminary analysis on the additional information provided by the NLRSD confirms the lack of adequate controls and procedures relating to the NLRSD's accounting of the Desegregation Funding.

   Although Navigant was informed by the Director of Purchasing that there are separate accounting roles in the preparation, approval and input of transactions to APSCN,[53] it does not appear that these existing roles ensure that the nature, timing and extent of the Desegregation Funding is recorded properly in APSCN.

   Additionally, the NLRSD cannot readily quantify the expenditures incurred for Desegregation-related purposes because such expenditures were not accounted for separately. Accordingly, Navigant continues to recommend that there should be separate reporting of the Desegregation Funding in accordance with the appropriate desegregation codes established by the ADE. The Funding and

[51] The $549,416 represents Funding provided by the ADE for 387 – Health Insurance & Teacher Retirement.

[52] The $443,808 represents Funding provided by the ADE for 388 – Magnet and M-to-M Transportation.

[53] The Director of Purchasing stated that he prepares the journal entries on paper, which are then reviewed, approved and input to APSCN by the CFO.

related expenditures should not be commingled with general unrestricted fund accounts and should be transparent.

Appendix A

NAVIGANT

Arkansas Department of Education - Desegregation Funding Analysis
North Little Rock School District ("NLRSD")
Appendix A: Summary of Desegregation Funding and Expenditures by Fiscal Year

	FY 2006[1]	FY 2007[2]	FY 2008[3]	FY 2009[3]	FY 2010[3]	FY 2011[5]	Grand Total	%
ADE Desegregation Funding:								
387 - Health Insurance & Teacher Retirement	$ 1,475,605	$ 1,936,864	$ 1,586,718	$ 2,104,371	$ 2,179,474	$ 1,131,552	$ 10,414,583	23.1%
387 - Majority to Minority Incentive	4,691,996	4,329,372	3,992,864	6,904,506	6,046,974	1,796,673	27,762,385	61.6%
388 - Magnet & M-to-M Transportation	853,733	1,072,894	1,304,508	1,251,199	1,349,523	1,093,859	6,925,715	15.4%
Total ADE Desegregation Funding	**$ 7,021,333**	**$ 7,339,130**	**$ 6,884,089**	**$ 10,260,076**	**$ 9,575,971**	**$ 4,022,083**	**$ 45,102,683**	
Additional Transactions Recorded in APSCN by NLRSD:								
387 - Majority to Minority Incentive		$ (406,459)			$ (58,059)		$ (464,518)	
388 - Magnet & M-to-M Transportation				$ 461,908 [4]			461,908	
Less Expenditures Recorded in Desegregation Funds:								
Salaries	$ -	$ -	$ 693,921	$ 7,116,866	$ 730,674	$ 196,270	$ 8,737,731	32.6%
Employee Benefits	-	-	182,562	4,394,584	294,854	60,142	4,932,142	18.4%
Purchased Services:	-	-	-	-	-	-	-	
Advertising	-	-	-	94,003	-	8,751	102,754	0.4%
Fleet Insurance	-	-	-	-	94,995	-	94,995	0.4%
Property Insurance	-	-	-	-	454,346	-	454,346	1.7%
Other Insurance	-	-	-	61,897	-	-	61,897	0.2%
Legal Fees	-	-	-	138,893	359,210	-	498,103	1.9%
Maintenance And Repairs	-	-	-	161,704	909,544	7,201	1,078,449	4.0%
Other Professional Services	-	-	-	643,252	1,207,232	24,994	1,875,478	7.0%
Rent	-	-	-	40,800	18,750	-	59,550	0.2%
Services Purchased from Other LEAs in State	-	-	-	-	-	-	-	0.0%
Travel	-	-	-	22,523	4,164	-	26,687	0.1%
Tuition to Other LEAs in State	-	-	-	1,770,077	1,761,736	-	3,531,813	13.2%
Tuition to Private Schools	-	-	-	504,220	576,276	-	1,080,496	4.0%
Other Tuition	-	-	-	108,000	-	-	108,000	0.4%
Gasoline	-	-	-	-	475,353	-	475,353	1.8%
Supplies, Books and Materials	-	-	25,175	538,736	2,597,050	6,750	3,167,711	11.8%
Equipment	-	-	-	66,006	385,520	-	451,526	1.7%
Heating Oil	-	-	-	-	-	-	-	0.0%
Dues and Fees	-	-	-	29,852	4,543	-	34,395	0.1%
Total Expenditures Recorded in Desegregation Funds	**$ -**	**$ -**	**$ 901,658**	**$ 15,691,413**	**$ 9,874,247**	**$ 304,108**	**$ 26,771,426**	**100.0%**
Remaining Desegregation Funding Balance	**$ 7,021,333**	**$ 7,339,130**	**$ 5,982,431**	**$ (5,431,337)**	**$ (298,276)**	**$ 3,717,975**	**$ 18,331,257**	

1 The ADE Desegregation Funding for FY 2006 totaling $7,021,333 was not reflected in NLRSD's ASPCN records.

2 The ADE Desegregation Funding for FY 2007 was reflected in NLRSD's ASPCN records except for the following amounts:
387 - Health Insurance and Teacher Retirement $835,501
388 - Magnet & M-to-M Transportation $406,459

3 The entire amount of the ADE Desegregation Funding for these respective fiscal years were reflected in NLRSD's APSCN records.

4 This amount is the net of two transactions reflected in the APSCN Revenue Audit Trail Report: $1,300,628 and ($838,720).

5 Transactions reflected in APSCN as of December 9, 2010.

Appendix B

Arkansas Department of Education - Desegregation Funding Analysis
North Little Rock School District
Appendix B: Matrix of Potential Issues Identified During Desegregation Funding Analysis

Potential Issues Identified	Potential Misconduct	Potential Fraud	Lack of Segregation of Duties	Lack of Written Policies & Procedures	Lack of Additional Review, Oversight and Compliance
A. Lack of Policies & Procedures:					
Understanding of Mandates Surrounding Desegregation Funding	X	X	X	X	X
Following Precedence on Calculation of Transportation Reimbursement	X		X	X	X
B. Accounts Payable:					
Access to Make Changes to Vendor Master List	X	X	X	X	X
C. Plant Services Blanket Purchase Orders:					
Blanket Purchase Orders Are Not Competitively Bidded	X	X	X	X	X
Approvals Thresholds Do Not Follow Board Policy	X	X	X	X	X
Count:	5	4	5	5	5

Appendix C

NAVIGANT

North Little Rock School District ("NLRSD")
Follow-up Questions
February 8, 2011

The following is a list of follow-up questions related to our analysis of the journal entries recorded in NLRSD's APSCN in connection with the recording of the receipt and use of the funding provided by the Arkansas Department of Education ("Desegregation Funding"). The Desegregation Funding provided by ADE to NLRSD was associated with the following APSCN Source of Funds noted in the Arkansas Financial Handbook:

Source of Fund	Related Revenue Account
387 M-to-M Revenue	32812
387 Teacher Retirement & Insurance Court Settlement	32814
388 Magnet & M-to-M Transportation	32813

I. FY 2006 and FY 2007

NLRSD representatives stated that its accounting records were maintain in AS/400 CIMS III software ("AS/400") prior to reporting live in APSCN beginning in FY 2008.

A. FY 2006

Navigant noted that there were no related expenditures reflected in (or migrated to) APSCN for FY 2006 related to the use of the Desegregation Funding.

Can you quantify the related expenditures that were recorded in AS/400 that reflects the use of the Desegregation Funding for FY 2006? For example, provide the following information in connection with the nature and amount of the expenditures for At-Risk Programs:

At-Risk Program Name	Expenditure Type	Expenditure Amount

These items on the AS/400 were not coded to the Fund/Source of Funds that we are now using in APSCN. These expenditures were coded to the Operational Fund 2000.

Since the termination of payments pursuant to section VIII (B) and (C), which concluded in or about 1999, NLRSD has not received any funding from ADE that was restricted in use for Desegregation Programs. NLRSD has and currently does receive incentive funding from ADE, which is intended to encourage NLRSD's participation in the M-to-M and Magnet School transfers. However, these are the primary funds that are used to support the programs outlined in the NLRSD Desegregation Plan and discussed in the testimony given in the hearing on NLRSD's Petition for Unitary Status in 2010.

B. FY 2007

1. Revenue

a. 387 Health Insurance & Teacher Retirement

The ADE paid $1,936,864 to NLRSD for FY 2007, however, only $1,101,363 was recorded as a lump sum amount on June 29, 2007 to Source of Fund 2000 and Revenue Account #32814, or a difference of $835,501.

1. Should the $1,101,363 be recorded in Source of Fund 2387? Yes. It should have been coded to 2387, not 2000.
2. Where is the remainder of $835,501 recorded in APSCN? NLRSD recorded in APSCN what was submitted by the ADE. The 835,501 is not recorded in APSCN.

b. 387 M-to-M Revenue

What is purpose of the journal entry for ($406,459) recorded to Source of Fund 2387 and Revenue Account 32812 on June 29, 2007? The Reference and Description fields were blank.
The (406,459) was not a journal entry, but a (-) receipt to adjust downward the amount received in MM Revenue to agree with the amount in AS/400.

c. 388 Magnet & M-to-M Transportation

The ADE paid $1,072,894 to NLRSD for FY 2007, however, only $666,435 was recorded as a lump sum amount on June 29, 2007 to Source of Fund 2388 and Revenue Account #32813, or a difference of $406,459.

Where is the remainder of $406,459 recorded in APSCN?
The amount recorded in APSCN was the amount received from ADE. In transporation revenue, much of the time we receive an amount for a previous fiscal year in the next fiscal year. I don't know how the ADE reports to you, but, we record what is sent to us via Direct Deposit.

NAVIGANT

2. Expenditures

Navigant noted that there were no related expenditures reflected in (or migrated to) APSCN for FY 2007 related to the use of the Desegregation Funding.

Can you quantify the related expenditures that were recorded in AS/400 that reflects the use of the Desegregation Funding for FY 2007? For example, provide the following information in connection with the nature and amount of the expenditures for At-Risk Programs:

At-Risk Program Name **Expenditure Type** **Expenditure Amount**

As stated in the interview and explained above, the expenditures that utilized the MM funds were spent out of 2000 (operating).

II. FY 2008

A. Revenue

387 Health Insurance & Teacher Retirement

The ADE paid $1,586,718 to NLRSD for FY 2008, which were recorded by NLRSD in APSCN as follows:

$1,037,302 to Source of Fund 2387 and Revenue Account 32814 (7 entries)
$ 549,416 to Source of Fund 2000 and Revenue Account #32814 (2 entries)

Why was $549,416 recorded to Source of Fund 2000?
An error on the FSOF was made and not corrected.

B. Expenditures

Navigant noted that there were limited expenditures reflected in (or migrated to) APSCN for FY 2008 related to the use of the Desegregation Funding.

Can you quantify the related expenditures that were recorded in AS/400 that reflects the use of the Desegregation Funding for FY 2008? For example, provide the following information in connection with the nature and amount of the expenditures for At-Risk Programs:

At-Risk Program Name **Expenditure Type** **Expenditure Amount**

As stated in the interview and explained above, these expenditures were considered operational and were not coded to specific FSOF related to M-to-M or Transportation.

NAVIGANT

III. FY 2009

ADE funding of 388 Magnet & M-to-M Transportation

The ADE paid $1,251,199 to NLRSD for FY 2009, which were recorded in three journal entries in APSCN to Source of Fund 388 and Revenue Account 32813. Additionally, the following two additional entries were also recorded in APSCN in period 13:

$1,300,628 – "Book MM Transp cost"
($838,720) – "Adj Mag Transp"

What is the purpose of these two entries?
JE1446 was booking the Transportation cost not yet received with the offset to Accounts Receivable. JE1455 adjusts the amount that will be received.

IV. FY 2010

A. Revenue: 387 M-to-M Revenue

What is purpose of the journal entry for ($58,059) recorded to Source of Fund 2387 and Revenue Account 32812 on June 30, 2010?
NLRSD received notice from the ADE that they had overpayed NLRSD by 58,059.00. This represents the check # 142912 of the repayment to the ADE.

B. Revenue: of 388 Magnet & M-to-M Transportation

The ADE paid $1,349,523 to NLRSD for FY 2010, which were recorded in the following two journal entries in APSCN:

$905,715 to Source of Fund 2388 and Revenue Account 32813
$443,808 to Source of Fund 2387 and Revenue Account 32814
Receipt#10108 was for 905,715.36
Receipt#10574 for 443,807.63 was coded to the incorrect FSOF/Account

Why was $443,808 recorded to the Source of Fund and Revenue Account that pertains to Teacher Retirement & Insurance Court Settlement?
An error occurred and was not caught.

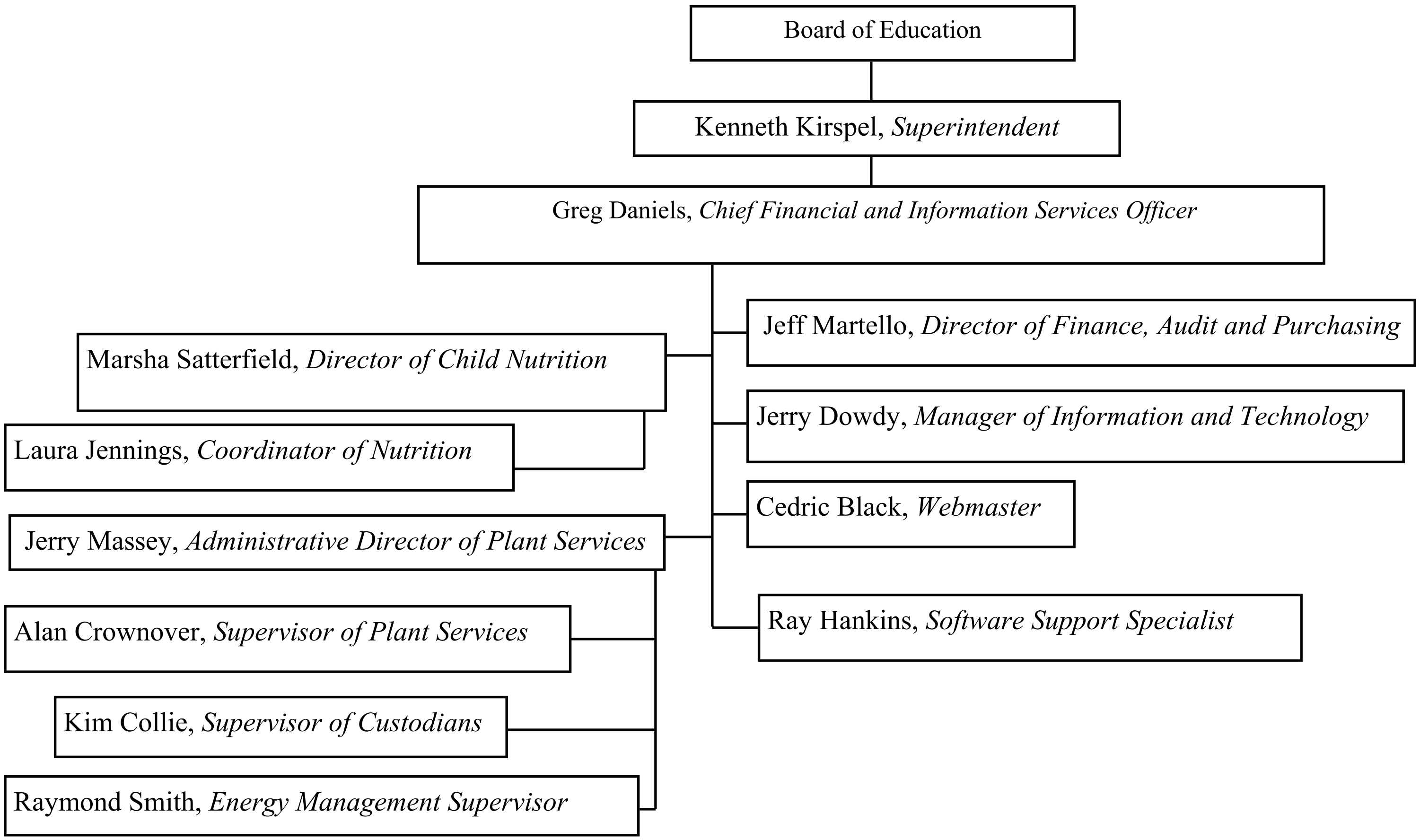
V. Document Requests

A. Organization chart of the accounting department
Attachment: Org Chart 10-11 Finance Department.pdf

B. Business Practices from the Board Policy Book
Attachment: BusPolxxxxxxx.pdf (several files)

Appendix D

North Little Rock School District
Organizational Chart



Updated
8/19/2010

Appendix E

7.1—FISCAL YEAR

The District's fiscal year shall begin July 1 and end on the following June 30.

Legal Reference: A.C.A. § 6-20-410

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.2—ANNUAL OPERATING BUDGET

The Superintendent shall be responsible for the preparation of the annual operating budget for the District. The Superintendent shall present the budget to the Board for its review, modification, and approval.

The budget shall be prepared in the electronic format as prescribed by the State Board of Education and filed with the Arkansas Department of Education no later than September 15 of each year.

The approved budget shall provide for expenditures that are within anticipated revenues and reserves. The District Treasurer shall present monthly reconciliation reports and a statement on the general financial condition of the District monthly to the Board.

Line item changes may be made to the budget at any time during the fiscal year upon the approval of the Board. Any changes made shall be in accordance with District policy and state law.

Legal References: A.C.A. § 6-17-914
A.C.A. § 6-13-701 (c) (3)
A.C.A. § 6-20-2202

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.2.1 – ANNUAL AUDIT

All District accounts are to be audited annually by a certified public accountant selected by the Board. The audit firm shall be selected every five years beginning with the 1987-88 fiscal year.

A copy of the audit report shall be placed in the North Little Rock Public Library and copies sent to the Arkansas Department of Education and the State School Auditor.

Date Adopted: March 23, 1993
Last Revised: July 17, 2008

7.3—MILLAGE RATE

The Board shall publish, at least sixty (60) days in advance of the school election at which the annual ad valorem property tax for the district is decided by the electors, the District's proposed budget, together with a millage rate sufficient to provide the funds necessary for the District's operation.

Legal References: A.C.A. § 6-13-622
Arkansas Constitution: Article 14 Section 3 (c) as amended by Amendment 74

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.4—GRANTS AND SPECIAL FUNDING

The Superintendent or his/her designee may apply for grants or special funding for the District. Any grants or special funding that require matching District resources shall receive Board approval prior to the filing of the grant's or special resource's application.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.5—PURCHASES OF COMMODITIES

Purchases shall be made in accordance with State laws and procurement procedures governing school purchases that are deemed to be in the best interest of the District and are the result of fair and open competition between qualified bidders and suppliers.

DEFINITIONS

"Commodities" are all supplies, goods, material, equipment, computers, software, machinery, facilities, personal property, and services, other than personal and professional services, purchased on behalf of the District.

"Specifications" means a technical description or other description of the physical and/or functional characteristics of a commodity.

Purchases of commodities with a purchase price of more than $10,000 require prior Board approval; unless an emergency exists in which case the Superintendent may waive this requirement.

The district shall notify in writing all actual or prospective bidders, offerors, or contractors who within at least 10 calendar days make a written request to the district for notification of opportunities to bid. The notification shall be made in sufficient time to allow actual or prospective bidders, offerors, or contractors to submit a bid or other appropriate response.

All purchases of commodities in which the estimated purchase price equals or exceeds ten thousand dollars ($10,000) shall be procured by soliciting bids through the Purchasing Office. Specifications shall be devised for all commodities to be bid that are specific enough to ensure uniformity of the bid and yet not so restrictive that it would prevent competitive bidding. The bid specifications shall not include the name or identity of any specific vendor. The Board reserves the right to reject all bids and to purchase the commodity by negotiating a contract. In such an instance, each responsible bidder who submitted a bid shall be notified and given a reasonable opportunity to negotiate.

Bids shall be awarded after careful examination of the details of the bid to determine the best overall value to the District. In instances where the low bid was not accepted a statement of the reasons shall be attached to the bid. Bidders submitting written bids shall be notified in writing of the bid award.

The following commodities may be purchased without soliciting bids provided that the purchasing official determines in writing that it is not practicable to use other than the required or designated commodity or service, and a copy of this statement is attached to the purchase order:

1. Commodities in instances of an unforeseen and unavoidable emergency;
2. Commodities available only from the federal government;
3. Utility services;
4. Used equipment and machinery; and
5. Commodities available only from a single source.

Prospective bidders, offerors, or contractors may appeal to the district's superintendent if they believe the district failed follow district bidding and purchasing policy or state law.

Any award of a contract shall be subject to revocation for ten working days or, if an appeal is received, after resolution of the appeal. This shall give prospective bidders, offerors, or contractors the opportunity to appeal the bid award if they believe the facts warrant an appeal. Any appeal shall be **in writing by certified mail** and received by the district office, "attention to the Administrative" within seven calendar days following the initial and revocable award of the contract.

If the district receives an appeal of a bid award, they shall notify, in writing, those prospective bidders, offerors, or contractors who have made a written request to the district for notification of opportunities to bid that an appeal has been submitted. The notification shall state:

- that the contract award has been halted pending resolution of the appeal and could be revoked;
- the reasons for the appeal;
- that the recipient of the letter may respond to the protested issues identified in the appeal;
- the date the decision on the appeal will be made and notification sent;
- that if the appeal is upheld, the bidding process will start all over again;
- that if the bidding is re-opened, changes will be made to the request for bids as necessary to satisfy the reasons for upholding the appeal.

The sole authority to resolve any appeal made relating to this policy shall rest with the superintendent. The superintendent's decision shall be final and conclusive. In the event the district upholds an appeal, the sole responsibility of the district to the aggrieved bidder(s) shall be the re-opening of the bidding process.

Legal References: A.C.A. § 6-21-301, 303, 304, 305, 306
A.C.A. § 6-24-101 et seq.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.6—ACTIVITY ACCOUNT

The District shall maintain an account of activity funds. The funds for the account are those revenues derived from the sale of tickets to athletic contests or other school sponsored activities; the sale of food other than that sold in the cafeteria; the sale of soft drinks, school supplies, and books; and fees charged by clubs and organizations.

Activity funds shall be maintained and accounted for according to guidelines and procedures established by the General Education Division of the Department of Education.

The Superintendent shall be the custodian of all activity funds and shall be responsible and accountable for the funds. The Superintendent may appoint a co-custodian for each school in the District who shall also be responsible for the activity funds he/she maintains.

Legal Reference: A.C.A. § 6-13-701 (e)

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.7—CASH IN CLASSROOMS

Teachers shall deposit daily to the principal's office all activity funds collected in their classrooms. No cash or checks are to be left in any classroom overnight.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.7.1—RESPONSIBILITY FOR FUNDS

Funds entrusted to District employees are the complete responsibility of such employees.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.8—PERSONAL PROPERTY

Personal property--all items purchased by the teacher with his own funds to be used as teaching aids in the classroom shall be considered as his personal property. These items should be labeled and registered in the principal's office. Items should be removed from the building each summer, otherwise items become the property of the District.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.8.1.—DONATED PROPERTY

Items which have been purchased by any individual or group, including parent support groups, become the permanent property of the District.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.9—PROPERTY INSURANCE

The Superintendent shall be responsible, with approval of the Board, for maintaining adequate insurance coverage for all District properties.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.9.1—SALE OF REAL ESTATE

District owned real estate shall be sold only upon action of the Board of Education.

The manner of sale of real property should be determined by action of the Board. This would involve advertising for bids, securing offers, or any other arrangement that would be advisable in line with the nature of the property or equipment to be sold.

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.10—PUBLIC USE OF SCHOOL BUILDINGS

It is the policy of the Board that District school buildings may be used by citizens of the District to conduct lawful meetings for social, civic, or recreational purposes provided such meetings do not interfere with the regular school work. The Superintendent shall be responsible, with Board approval, for establishing procedures governing such use of school buildings. The governing procedures shall be viewpoint neutral. Building principals shall be consulted to determine if there exists any conflict with planned school activities prior to other groups being allowed to use school facilities.

The District shall establish a fee schedule for the use of school facilities. Charges made for the use of school facilities shall reflect the actual costs (e.g. labor, utility, and materials) incurred by the District.

Organizations using school facilities assume full and complete responsibility for the conduct of all persons, regardless of age, associated with their use of the facility while they are in or about the facility. Smoking or the use of tobacco or products containing tobacco in any form or the use of drugs or intoxicants is prohibited. Firearms of any kind are not allowed on school property unless the person carrying the firearm is permitted to do so by law as defined in A.C.A. § 5-73-120.

Legal Reference: A.C.A. § 6-21-101
A.C.A. § 5-73-120

Date Adopted: June 26, 1986
Last Revised: July 17, 2008

7.10.1—ENERGY MANAGEMENT CONSERVATION POLICY

As the School Board of the North Little Rock School District, we believe it to be our responsibility to ensure that every effort is made to conserve energy and natural resources while exercising sound financial management.

The implementation of this policy is the joint responsibility of the board members, administrators, teachers, students and support personnel and its success is based on cooperation at all levels.

The district will maintain accurate records of energy consumption and cost of energy and will provide information to the local media on the goals and progress of the energy conservation program.

The building administrator, working with the energy manager will be accountable for energy management on his/her campus with energy audits being conducted and conservation program outlines being updated   Judicious use of the various energy systems of each campus will be the joint responsibility of the energy manager, plant services, principal and head custodian to ensure that an efficient energy posture is maintained on a daily basis.

To ensure the overall success of the energy management program, the following specific areas of emphasis will be adopted:

1. All district personnel will be expected to contribute to energy efficiency in our district. Every person will be expected to be an "energy saver" as well as an "energy consumer".

2. Energy management on his/her campus will be made a part of the building administrator's annual evaluation.

3. Within sixty (60) days, administrative Energy Guidelines will be adopted that will be the "rules of the game" in implementing our energy program.

4. Further, to maintain a safer and healthier learning environment and to complement the energy management program, the district shall follow the Arkansas Public School Academic Facilities and Transportation preventive maintenance and monitoring plan for its facilities and systems, including HVAC, building envelope, and moisture management.

5. The School Board of North Little Rock School District directs the development of short and long range plans in the areas of facilities management and preventive maintenance as prescribed by Arkansas Public School Academic, and Transportation Division.

Date Adopted: September 15, 2005
Last Revised: July 17, 2008

7.11—USE OF SCHOOL FUNDS FOR POLITICAL PURPOSES

School funds shall not be used for political, charitable, or humanitarian purposes.

Date Adopted: July 17, 2008

7.12—EXPENSE REIMBURSEMENT

Reimbursement for expenses related to travel and/or attendance at conference and professional development activities incurred by district employees and/or members of the Board of Directors on behalf of the district shall be done according to the following guidelines. Original receipts must accompany all requests for reimbursement to the extent that such receipts are customarily available. For a receipt to be valid it should contain the name of the issuing company, the date, and the amount of items purchased. Employees are only eligible for reimbursement for travel expenses for travel which has been approved in advance. No cash advances shall be made for travel. Reimbursement for travel shall be for the lesser of the cost between travel by air or by car with some consideration allowed for length of time of the method of travel.

To the extent practicable, employees shall have the district pay initial conference and professional development registration fees and associated necessary and materials. In the occasional circumstances where this is not practical, the district shall reimburse the employee for such fees if they were authorized in advance and are supported with proper receipts.

Meal expenses incurred by the superintendent or other administrators as necessary, in the performance of their duties when meeting with state officials or consultants may be reimbursed on a prorated, per person basis in line within the mandates of this policy. Such expenses shall only be reimbursed when the expenditure is likely to result in a tangible benefit to the district.

Rates for Reimbursement

Mileage allowance shall be reimbursed at the rate of the state of Arkansas permanent rate. Mileage shall be reimbursed on the basis of the shortest, most reasonable, route available.

When travel necessitates overnight lodging, reimbursement shall be equal to or less than the current IRS rate unless at least one of the following conditions is met.

- The location of the conference or other approved reason for travel is located in a hotel which does not offer rates within the IRS rate schedule. In such an instance, the employee shall be reimbursed at the "special conference rate" if available. If such a rate is not offered, or is no longer available, the employee shall be reimbursed for lodging costs that are reasonable for single occupancy rates at the hotel in which the conference is held.
- The hotel in which the conference is held has no rooms available. In such an instance, the employee shall be reimbursed for reasonable single occupancy lodging costs in another hotel located near the conference.
- The conference or other approved reason for travel is held in a location other than one that is part of a hotel. If the rates of the hotels located near the conference or other approved reason for travel are not within the IRS rate schedule, the employee shall be reimbursed for reasonable single occupancy lodging costs in a hotel located near the conference. The IRS rate will be attached to the purchase order.

To the extent practicable, employees shall receive assistance from administrators or their designee in arranging travel plans to help keep expenses to a minimum.

Expenses not covered

The district shall not reimburse the following items/categories of expenses.

- Alcoholic beverages;
- Entertainment expenses – including sports or sporting events or pay per view or game expenses at motels;
- Replacement due to loss or theft;
- Discretionary expenses for items such as clothing or gifts;
- Medical expenses incurred while on route to or from or at the destination of the reason for the travel;
- Optional or supplementary insurance obtained by the employee for the period covered during the travel; and
- Tips, other than those required by the source of the expense, e.g. a restaurant which adds a tip to the bill for all groups of six or more.

Airport Associated Expenses

Receipts for airport associated expenses are required for reimbursement. All airline flights shall be by coach/economy class. Upon arrival at their destination, employees are expected to take the less expensive option between a taxi and an airport shuttle service to his/her hotel or meeting site. When circumstances dictate that a rental car is necessary and/or the most economical approach to the travel requirements, the least expensive car that will accomplish the job should be rented. The district shall not reimburse for any kind of rental car supplemental insurance.

Date Adopted: July 17, 2008

7.14—USE OF DISTRICT CELL PHONES and COMPUTERS

Board members, staff, and students shall not be given cell phones or computers for any purpose other than their specific use associated with school business. School employees who use a school issued cell phones and/or computers for non-school purposes, except as permitted by the district's Internet/computer use policy, shall be subject to discipline, up to and including termination. Students who use a school issued cell phones and/or computers for non-school purposes, except as permitted by the district's Internet/computer use policy, shall be subject to discipline, up to and including suspension or expulsion.

All employees are forbidden from using school issued cell phones while driving any vehicle at any time. Violation may result in disciplinary action up to and including termination.

Cross References:	4.47	POSSESSION AND USE OF CELL PHONES, BEEPERS, ETC.
	CFSC	COMPUTER NETWORK APPROPRIATE USE
	CFSC-CL	COMPUTER NETWORK APPROPRIATE USE FOR CLASSIFIED

Legal References: IRC § 132(d)
IRC § 274(d)
IRC § 280F(d)(4)

Date Adopted: August 20, 2009
Last Revised: August 20, 2009

7.16—INFORMATION TECHNOLOGY SECURITY

The superintendent shall be responsible for ensuring the district has the necessary components in place to meet the district's needs and the state's requirements for information technology (IT) security. The district shall appoint an information technology security officer (ISO) who, along with other IT staff, the superintendent and district management appointed by the superintendent shall develop the necessary procedures to create a district–wide information technology security system meeting the requirements of this policy and the standards prescribed by the Arkansas Department of Education.

The IT security system shall contain the necessary components designed to accomplish the following.

Sensitive information shall be protected from improper denial, disclosure, or modification.

Physical access to computer facilities, data rooms, systems, networks and data will be limited to those authorized personnel who require access to perform assigned duties.

Traffic between internal (district) resources and external (Internet) entities will be regulated by network perimeter controls. To the extent technologically feasible, network transmission of sensitive data should enforce encryption.

User access to the district's technology system and its applications shall be based on the least amount of access to data and programs necessary to perform the user's job duties.

Student or financial applications software developed for or by the district will be tested prior to implementation to ensure data security through proper segregation of programs.

Monitoring of internal and external networks and systems will be designed to provide early notification of events and rapid response and recovery from IT related incidents and/or attacks.

Continuity of critical IT services will be ensured through the development of a disaster recovery plan appropriate for the size and complexity of the district's IT operations.

Software protection of servers and workstations will be deployed to identify and eradicate malicious software attacks such as viruses, spyware, and malware.

Legal Reference: Commissioner's Memo RT 09-010

Date Adopted: August 20, 2009
Last Revised: August 20, 2009